

**SMUD****SACRAMENTO MUNICIPAL UTILITY DISTRICT**
The Power To Do More.SM

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Transmission Infrastructure Program (TIP)
Western Area Power Administration
P.O. Box 281213
Lakewood, CO 80228- 8213

RE: SMUD'S COMMENTS AND QUESTIONS ON THE PROPOSED TIP

This letter provides comments of the Sacramento Municipal Utility District (SMUD or District) on the proposed principles, policies and practices that the Western Area Power Administration (Western) plans to use to implement the authority provided to it in section 402 of the American Recovery and Reinvestment Act of 2009 (Recovery Act).

SMUD is both a Central Valley Project (CVP) water and power contractor, and is the largest CVP Preference Power Customer of Sierra Nevada Region (SNR) of the Western Area Power Administration, providing not only significant contributions to the Central Valley Project Improvement Act (CVPIA) Restoration Fund but a large share of the repayment of the CVP plant-in-service and Operations and Maintenance (O&M) costs allocated to power. The District has a major financial interest in the prudent management of the CVP facilities and resources and how the Recovery Act funds will be used to develop projects that will deliver renewable power to load centers such as that which SMUD serves in the Sacramento area.

SMUD was formed by a vote of the electorate in 1923, under provisions of the State of California Municipal Utility District Act, and began electric operations in 1947. The District is governed by an elected Board of Directors (Board) and has the rights and powers to fix rates and charges for commodities or services furnished, to incur indebtedness and issue bonds or other obligations, and, under certain circumstances, to levy and collect ad valorem property taxes. The District is responsible for the acquisition, generation, transmission, and distribution of electric power to its service area, which includes most of Sacramento County and a small adjoining portion of Placer County.

In implementing the authority granted to Western in section 402 of the American Recovery and Reinvestment Act of 2009 (Recovery Act), Western identified several principles which provide Western the overarching guidance needed to carry out its newly adopted Transmission Infrastructure Program (TIP). SMUD wishes to emphasize the importance of the following Principles and welcomes any clarification that Western can provide:

1. That the TIP would not adversely impact system reliability or operations or other of Western's statutory obligations.

It is critically important that any new transmission infrastructure facility that is built or upgraded as part of the TIP not degrade the reliability, impose new obligations, or increase the costs that would otherwise exist to Western's existing preference customers under the contracts they have with Western for power supply needs or transmission services. On the other hand, it is acceptable if not encouraged to approve projects that will enhance the reliability or operations of Western's existing transmission system.

The Preference Power Customers want to ensure that Western's original core mission of reliably delivering, cost-based carbon-free federal hydropower resources remains intact.

2. That TIP undertake sufficient investigation and analysis to be able to determine that there is a reasonable expectation that the proceeds from any project developed or financed under the program will be adequate to meet Western's financial repayment obligations.

Western needs to do enough research for each proposed project to be funded under TIP to gain adequate information to make a reasonable determination that the party or entity to which loans will be made for a proposed project will be capable to repay Western. Western will need to be comfortable that the proposed project will have long-term uses which support a revenue stream that is adequate to meet the repayment obligations of the associated loan made by Western. Such careful analysis will help to ensure that the existing Western project rates or revenue requirements are not increased as a consequence of this program and that existing customers understand the criteria that will be applied to recruit, select and implement any transmission infrastructure facility financed through Western's new borrowing authority.

Through Western, the Preference Power Customers have been diligent with their payments and funding accommodation to assure that Western meets its repayment obligations to the U.S. Treasury; this ensures that repayment of the federal investment occurs. Western's power-marketing plans in turn provided these customers a stable power supply at cost-based rates; this has been handled by allowing the customers to enter into long-term contracts to purchase the hydropower generation and transmission resources, and by paying all of the federal investment in generation and transmission facilities (with interest), all power-related operation and maintenance costs, and associated environmental costs. The existing power customers do not want any failed repayment obligations from a project established under the TIP to burden them with additional, unintended repayment obligations.

3. That a public process will be used to set rates for Western-owned transmission capacity resulting from any new facilities developed as a result of Western's participation in such project.

An open, transparent process is very important as Western moves to establish how project loans will be repaid with interest. Western must follow its intentions to develop policies and procedures through a public process, to ensure the existing project rates are not increased through implementation of the TIP, and to ensure that customers understand the criteria that will be applied to recruit, select and implement transmission projects under TIP.

In addition to the above Principles, SMUD requests that Western address the following questions:

1. In a joint-project partnership arrangement where Western and another entity jointly finance and construct a transmission-related facility, what repayment options will exist to pay back any funding advanced by Western for authorized TIP projects? What are the ownership options for this scenario? If Western wants to retain ownership of the complete project once constructed, including the part that is financed by another entity, under such a partnership arrangement, what options exist for the entity that financed part of the project to be repaid by Western?
2. In a joint-project partnership arrangement where Western finances 100% of the capital costs of a transmission-related facility through TIP and where Western and the partnership entity each will hold title to part of the joint project, what repayment options exist to pay back the funding advanced by Western for the part of the joint project that will be owned by the partnership entity?
3. Will Western allow a joint project to be constructed on property owned by Western or on land where Western has rights-of-way to construct a transmission-related facility? If so, will Western require that it retain or take title to the jointly built project?
4. What interest rate will be charged on the funds advanced by Western under the TIP? What will be the repayment term of the loan made by Western for a transmission-related facility?
5. In a joint-project partnership arrangement, once a joint project is constructed and put into service, will Western offer O&M services to the partner entity that retains ownership to part of the project? Would Western be willing to carry out routine and emergency maintenance tasks on the part of the project on which the partner has ownership, if the entity covers all of Western costs (whether or not the entity part of the project was financed by Western or not under the TIP)?

Thank you for allowing SMUD to provide feedback in this process. We look forward to Western's responses.

Sincerely,



James R. Shetler
Assistant General Manager
Energy Supply

cc: Tom Boyko, WAPA, SNR
Jim Beck, TANC
John DiStasio, SMUD